

Message Text

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ORIGIN L-03

INFO OCT-01 EUR-12 ISO-00 DODE-00 TRSE-00 OPR-02 SS-15
SP-02 FS-01 ABF-01 PER-01 CA-01 A-01 SCS-06 PM-05
OMB-01 /052 R

DRAFTED BY L/EUR:LFDAMROSCH:EMB
APPROVED BY L/EUR:JRCROOK
L/M:HBURMAN (SUBS.)
EUR/CE:RCASAGRANDE
DOD:MAJOR. RERES
IRS/IO:WCHRISTIE
-----050487 190913Z /15

R 181114Z MAR 78
FM SECSTATE WASHDC
TO AMEMBASSY BONN
USMISSION USBERLIN
CINCUSAREUR
HEIDELGERG GER/AEAGA/C

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E.O. 11652: N/A

TAGS: AFSP, AINF, GW, WB, AKB

SUBJECT: TAXATION OF PERSONS IN LOCAL NATIONAL AND NON-
APPROPRIATED FUND POSITIONS IN BONN AND BERLIN

REF: BONN 2138

1. NOTE: THIS MESSAGE IS A CORRECTED VERSION OF STATE
065243. IN PLACE OF PROPOSED QUESTIONS AND ANSWERS
(REFTEL), TAXPAYER ASSISTERS IN THE FRG AND BERLIN SHOULD
USE THE AGREED GUIDANCE CONTAINED HEREIN. THIS GUIDANCE
SHOULD ALSO BE CIRCULATED TO CONSULAR OFFICERS AND MIL-
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ITARY TAX ADVISERS FOR THEIR USE IN ANSWERING TAX IN-
QUIRIES FROM U.S. CITIZENS AND RESIDENT ALIENS IN LOCAL
NATIONAL AND NON-APPROPRIATED FUND POSITIONS IN THE FRG
AND BERLIN.

2. CONSIDERATIONS GUIDING DEPT, DOD AND IRS IN PREPARATION
OF AGREED GUIDANCE WERE:

A. SOME BERLIN ISSUES DIFFER FROM OTHERS COMMON TO BERLIN AND THE FEDERAL REPUBLIC OF GERMANY. THESE SPECIAL BERLIN ISSUES SHOULD BE TREATED SEPARATELY.

B. US CITIZENS IN LOCAL NATIONAL POSITIONS IN BERLIN WHO

NOT IN THE SAME SITUATION AS NON-DEPENDENTS.

C. PERSONS WHO HAVE TAX QUESTIONS MAY NOT FULLY UNDERSTAND THEIR PERSONNEL STATUS OR KNOW WHETHER THE PAYMENT THEY RECEIVE COMES FROM OCCUPATION COST FUNDS. THUS THE PERSONS GIVING TAX ADVICE WILL HAVE TO BE ABLE TO DETERMINE WHICH PARAGRAPH, IF ANY, OF THE AGREED STATEMENT APPLIES TO THE TAXPAYER IN QUESTION. THE USE BY THE QUESTIONER OF LAYMEN'S TERMS ("I WORK FOR..." OR "I AM EMPLOYED BY...") SHOULD NOT PREJUDGE THE ANSWER TO THE QUESTION OF WHETHER THESE PERSONS ARE USG EMPLOYEES IN THE TECHNICAL SENSE INVOLVED HERE.

3. THE FOLLOWING AGREED GUIDANCE ATTEMPTS TO AVOID ALTERING THE STATUS QUO OR RAISING POLITICALLY SENSITIVE ISSUES PRIOR TO INTERAGENCY REVIEW.

4. QUOTE: THE FOLLOWING QUESTIONS AND ANSWERS HAVE BEEN PREPARED FOR YOUR GUIDANCE IN ANSWERING INQUIRIES FROM US LIMITED OFFICIAL USE

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CITIZENS WHO WORK IN "LOCAL NATIONAL" POSITIONS INCLUDING "NON-APPROPRIATED FUND" POSITIONS IN BERLIN AND THE FRG. THE STATUS OF THESE PERSONS UNDER US TAX LAW IS VERY COMPLEX. THE IRS AND OTHER AGENCIES ARE NOW UNDERTAKING A REVIEW OF THE ISSUES INVOLVED AND IT IS UNLIKELY THAT THIS REVIEW WILL BE COMPLETED BEFORE THE AFFECTED TAXPAYERS HAVE TO FILE THEIR RETURNS. IN ANSWERING TAXPAYER INQUIRIES, YOU WILL HAVE TO IDENTIFY THE TAXPAYER'S EMPLOYMENT CATEGORY IN ORDER TO EXPLAIN TO HIM HOW HIS PARTICULAR STATUS AFFECTS THE PREPARATION OF HIS RETURN.

A. QUESTION: I AM A U.S. CITIZEN (OR RESIDENT ALIEN) PAID IN DEUTSCHE MARK (DM). DO I HAVE TO FILE A U.S. INCOME TAX RETURN ON SUCH INCOME?

ANSWER: A U.S. CITIZEN OR RESIDENT ALIEN MUST INCLUDE IN GROSS INCOME ALL INCOME FROM WHATEVER SOURCE, EXCEPT FOR THOSE ITEMS SPECIFICALLY EXCLUDED BY THE INTERNAL REVENUE CODE. GROSS INCOME WOULD INCLUDE COMPENSATION PAID EITHER IN DOLLARS, DEUTSCHE MARK OR ANY FOREIGN CURRENCY, AND THE FAIR MARKET VALUE OF BENEFITS RECEIVED IN KIND. PAYMENTS IN FOREIGN CURRENCY SHOULD BE CONVERTED TO DOLLAR VALUES AT THE RATE EXISTING AT THE TIME OF RECEIPT OF FOREIGN

CURRENCY.

B. QUESTION: CAN I EXCLUDE INCOME EARNED OVERSEAS?

ANSWER: UNDER SECTION 911 OF THE INTERNAL REVENUE CODE, A RECIPIENT OF GROSS INCOME FROM SOURCES OUTSIDE THE U.S. MAY EXCLUDE EARNED INCOME UP TO A MAXIMUM OF \$15,000 PER YEAR. HOWEVER, YOU MAY NOT EXCLUDE AMOUNTS PAID BY THE

UNITED STATES OR ANY AGENCY THEREOF.

C. QUESTION: (BERLIN ONLY) I AM EMPLOYED IN A LOCAL
'ATIONAL POSITION ADMINISTERED BY (U.S. MISSION BERLIN,
U.S. ARMY BERLIN, OR 7350TH AIR BASE GROUP, USAF, BERLIN).
HOW DOES SECTION 911 AFFECT ME? (AM I A U.S. EMPLOYEE?)
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ANSWER: IT IS OUR UNDERSTANDING THAT YOUR CONTRACT STATES THAT YOU ARE NOT AN EMPLOYEE OF THE U.S. HOWEVER, THIS DOES NOT NECESSARILY DETERMINE YOUR STATUS FOR U.S. TAX LAW PURPOSES. THE IRS IS CURRENTLY EXAMINING WHETHER YOU ARE A U.S. EMPLOYEE FOR TAX PURPOSES. IT IS NOT EXPECTED THAT A FINAL DECISION WILL BE REACHED ON THIS MATTER BEFORE IT IS NECESSARY FOR YOU TO FILE YOUR TAX RETURN FOR TAX YEAR 1977.

THERE ARE THREE ALTERNATIVES AVAILABLE TO YOU WITH RESPECT TO THE FILING OF YOUR 1977 RETURN:

(1) YOU MAY REQUEST AN EXTENTION OF TIME TO FILE THE RETURN. SUCH REQUEST MUST BE MADE BEFORE THE DUE DATE FOR FILING THE RETURN AND MAY BE EITHER ON FORM 2688 OR IN A LETTER. THE GRANTING OF AN EXTENSION TO FILE THE RETURN DOES NOT RELIEVE YOU FROM THE PAYMENT OF INTEREST IF UNPAID TAXES ARE ULTIMATELY FOUND TO BE DUE. INTEREST WILL BE COMPUTED FROM THE DUE DATE OF THE RETURN UNTIL THE TAX IS PAID.

(2) YOU MAY ELECT TO FILE YOUR RETURN AS IF YOU WERE AN EMPLOYEE OF THE U.S. GOVERNMENT. IF A DECISION IS ULTIMATELY MADE THAT YOU ARE NOT AN EMPLOYEE OF THE U.S. GOVERNMENT FOR FEDERAL TAX PURPOSES, YOU WOULD BE ENTITLED TO A REFUND WITH INTEREST OF ANY TAXES OVERPAID.

(3) IF YOU MEET ALL THE REQUIREMENTS OF SECTION 911, YOU MAY ELECT TO FILE A RETURN AND CLAIM THE EXCLUSION BENEFITS PROVIDED THEREIN. TO DO SO, YOU MUST FILE A FORM 2555, "EXEMPTION OF INCOME EARNED ABROAD" ALONG WITH FORM 1040. ALL QUESTIONS ON FORM 2555 MUST BE ANSWERED IN FULL, INCLUDING NAME OF EMPLOYER. SINCE THE IRS IS CONSIDERING
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THE QUESTION OF WHO IS YOUR EMPLOYER FOR TAX PURPOSES, THIS ALTERNATIVE MAY SUBJECT YOUR RETURN TO AN AUDIT. IF ADDITIONAL TAX IS DETERMINED TO BE DUE, YOU WILL, OF COURSE, BE ABLE TO AVAIL YOURSELF OF THE IRS APPEAL PROCEDURES.

IN VIEW OF THE UNCERTAINTY SURROUNDING YOUR STATUS, WE WOULD RECOMMEND THAT YOU CONSIDER THE FIRST ALTERNATIVE DESCRIBED ABOVE (EXTENSION).

D. QUESTION: I AM A U.S. CITIZEN OR RESIDENT ALIEN EMPLOYED IN A LN FUNDED POSITION BY A NON-APPROPRIATED FUND FACILITY AND A RESIDENT OF GERMANY, HAVE GERMAN INCOME AND SOCIAL SECURITY TAXES WITHHELD FROM MY WAGES WHICH ARE PAID TO ME IN DEUTSCHE MARK BY A LOCAL GERMAN FINANCE OFFICE. AM I A U.S. EMPLOYEE?

ANSWER: THE STATUS OF THIS CATEGORY OF EMPLOYEE IS CURRENTLY UNDER REVIEW BY THE IRS. IT IS NOT EXPECTED THAT A FINAL DECISION WILL BE REACHED ON THIS MATTER BEFORE IT IS NECESSARY FOR YOU TO FILE YOUR TAX RETURN FOR TAX YEAR 1977.

E. (BONN ONLY) I AM AN EMPLOYEE OF THE AMERICAN EMBASSY ASSOCIATION IN BONN. AM I A U.S. EMPLOYEE?

ANSWER: THE STATUS OF THIS CATEGORY OF EMPLOYEE IS CURRENTLY UNDER REVIEW BY THE IRS. IT IS NOT EXPECTED THAT A FINAL DECISION WILL BE REACHED ON THIS MATTER BEFORE IT IS NECESSARY FOR YOU TO FILE YOUR TAX RETURN FOR TAX YEAR 1977.

F. QUESTION: GERMAN INCOME TAX WAS WITHHELD FROM MY PAYCHECKS. AM I ENTITLED TO CLAIM THE AMOUNT OF TAX
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WITHHELD FROM MY SALARY AS A DEDUCTION OR CREDIT IN COMPUTING THE NET AMOUNT OWED TO THE UNITED STATES?
ANSWER: A DETERMINATION ON THIS QUESTION HAS YET TO BE MADE. IF YOU ARE A U.S. EMPLOYEE, IT IS POSSIBLE THAT THIS TAX WAS ERRONEOUSLY WITHHELD. IN THAT EVENT, YOU MAY FILE A CLAIM FOR REFUND OF SUCH TAX WITH THE LOCAL GERMAN FINANCE OFFICE. (IF TAXPAYER ASKS ABOUT HIS EM-

PLOYMENT STATUS, REFER TO QUESTIONS C AND D ABOVE ON
PENDING IRS REVIEW.)

G. QUESTION: (BERLIN ONLY) I AM A DEPENDENT OF A MEMBER
OF THE U.S. ARMED FORCES AND AM EMPLOYED IN A LOCAL
NATIONAL POSITION ADMINISTERED BY (U.S. MISSION BERLIN,
U.S. ARMY BERLIN, OR 7350TH AIR BASE GROUP, USAF, BERLIN).
I HAVE ONLY BEEN RECEIVING 85 PERCENT OF WHAT NON-DE-
PENDENTS, GERMANS AND THIRD-COUNTRY NATIONALS RECEIVE.
I UNDERSTOOD THAT I WOULD NOT HAVE TO PAY TAXES BECAUSE
IN A SENSE, TAXES WERE TAKEN OUT OF MY SALARY IN ADVANCE.
IS THAT RIGHT?

ANSWER: YOU MUST REPORT SUCH INCOME AS GROSS INCOME; HOW-
EVER, WHETHER OR NOT YOU WILL OWE U.S. TAXES ON SUCH IN-
COME DEPENDS IN PART ON WHAT EXEMPTIONS ARE AVAILABLE TO
YOU. THE TAX STATUS OF U.S. PERSONS EMPLOYED IN LOCAL
AS LISTED IN QUESTION C.) END QUOTE

5. (FYI: BEFORE FINAL DETERMINATION IS MADE, THE ISSUES
RAISED BY THESE QUESTIONS WILL BE DISCUSSED WITH THE
FEDERAL REPUBLIC OF GERMANY AND THE ALLIED KOMMANDATURA
BERLIN. END FYI.)

6. ACTION REQUESTED: PERSONS GIVING U.S. TAX ADVICE
SHOULD BE INSTRUCTED TO BEGIN USING THE AGREED GUIDANCE
IMMEDIATELY. VANCE
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 18 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE070333
Document Source: CORE
Document Unique ID: 00
Drafter: LFDAMROSCHEMB
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780121-0898
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780351/aaaabqrj.tel
Line Count: 256
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 26987cc4-c288-dd11-92da-001cc4696bcc
Office: ORIGIN L
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 BONN 2138
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3280954
Secure: OPEN
Status: NATIVE
Subject: TAXATION OF PERSONS IN LOCAL NATIONAL AND NON- APPROPRIATED FUND POSITIONS IN BONN AND BERLIN
TAGS: AFSP, AINF, GE, WB, AKB
To: BONN USBERLIN MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/26987cc4-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014